



**STATEMENT OF THE
NATIONAL ASSOCIATION OF INDEPENDENT INSURERS**

**BEFORE THE
NATIONAL CONFERENCE OF STATE LEGISLATURES
EXECUTIVE COMMITTEE TASK FORCE TO STREAMLINE &
SIMPLIFY INSURANCE REGULATION**

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The National Association of Independent Insurers (NAII) is a non-profit trade group representing the interests of more than 700 property-casualty insurance companies in the United States. NAII's member companies write 34 percent of the total property/casualty insurance in the country and 44 percent of the personal lines insurance.

NAII is a cross section of the industry. Every type of company (stock, mutual, reciprocal, and Lloyd's) and every type of marketing system (direct writer, agency, mail order, independent contractor and telemarketing) is represented. NAII is a state-authorized statistical reporting agency. It collects information on the losses and costs from members and other companies, analyzes and distributes it to the industry, state insurance departments and other government agencies, acting as a key resource to state insurance departments, legislators, and the news media.

Founded in 1945, NAII has a staff of 180 including attorneys, insurance experts, legislative and regulatory analysts, statisticians and researchers. A primary purpose of NAII is to provide objective data and expertise to regulators, legislators, and agencies of the state and federal branches.

NAII has its national headquarters in Des Plaines, Illinois, outside of Chicago, and branch offices in Washington, Atlanta, Sacramento, Seattle and

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Austin, Texas. NAI members write almost \$98 billion in annual premiums in the United States.

We want to commend the members of NCSL for convening this executive committee task force to streamline and simplify insurance regulation. However, we are disappointed that the focus of the Task Force at this June meeting is primarily on the NAIC's Interstate Insurance Compact for Annuities, Life & Disability Income Products. We believe that time could be better spent on analyzing current statutory structure and current regulatory culture of state insurance regulation. We believe that those discussions would be more fruitful than imposing a new level of bureaucracy in insurance regulation.

We agree that the Interstate Insurance Compact for Annuities, Life & Disability Income Products proposed by the NAIC is a worthwhile initiative. However, we are skeptical that state legislatures and state insurance regulators will be willing to cede authority in the form of an interstate compact. In the context of the discussions at the NAIC, the interstate compact is a concept to be praised. However, selling the idea to the state legislatures will likely be quite a different story.

Further, we do not believe that it will cure the threat of federal regulation. We do not believe that the proposals by other national insurance trade associations

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will be taken off the table if the interstate compact becomes a reality. In fact, in a recent news article, while the NAIC says that the interstate compact will remove the need for insurers to seek an optional federal charter, the ACLI declines to say whether successful implementation of the compact would eliminate one of the reasons for pursuing an optional federal charter. This verifies the notion that the threat of federal regulation will still loom unless there are meaningful reforms to all lines of business.

NAII articulated to this group in October, 2001 and to the AFI Commerce and Communication Committee in August 2001, that meaningful regulatory modernization efforts are needed to thwart the threat of federal regulation. And again, we would like to say to this task force that we believe that the NCOIL Property/Casualty Insurance Modernization Act embraces the rate and form filing reforms needed in the states to thwart federal regulation. We do understand that it would be very rare indeed for the NCSL to adopt an NCOIL model statute in whole. In the alternative, we suggest that the task force consider a strong statement in support of the concepts embraced by the personal lines portions of the NCOIL Property/Casualty Insurance Modernization Act. It relies upon competition among insurers to determine insurance rates. It also provides for

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regulatory intervention and consumer protections if a market is considered not to be competitive. The model law strikes a reasonable balance by providing a competitive (use-and-file) system, but with appropriate consumer safeguards such as additional authority for the insurance regulator upon a finding that a particular insurance market is not competitive.

NAII is here today to offer any assistance needed by this task force and its staff in drafting a resolution or statement in support of the concepts found in the NCOIL Model law. We are offering to share the expertise of our staff that includes attorneys, insurance line experts, legislative and regulatory analysts, statisticians and researchers.

Professor Scott Harrington will speak at the NCSL Annual Meeting in Denver this July. His presentation will be enlightening for those who come to hear it. In one of his papers he wrote:

“The persistence of prior approval rate regulation in some lines and states has weakened traditional support for state insurance regulation. The future of state regulation could depend on whether remaining regulatory impediments to competitive pricing and underwriting can be substantially eliminated without fundamental changes in the structure of regulation.”

There is clear academic evidence in support of the value and importance of personal lines modernization for consumers, especially in terms of marketplace

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stability, lower residual market populations, enhanced availability, and more accurate cost-based pricing.

Personal lines insurance remains one of the most regulated markets in the United States. Regulation of personal lines insurance products must be modernized to embrace the benefits of competition, albeit with balanced consumer protections, if state regulation of the business of insurance is indeed going to survive and thrive. The concepts in the NCOIL model as it pertains to personal lines strikes the appropriate balance. The NAIC and many state legislatures have already recognized the benefits of competition for commercial insureds. The time has come and we do indeed hope that this task force will make the same conclusion as Professor Harrington, NCOIL, ALEC and NAII's 700 member companies when it makes recommendations to the NCSL Executive Committee.

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